



Department of Energy

Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208-3621

EXECUTIVE OFFICE

AUG 31 2000

In reply refer to: PS-6

To Customers and Interested Parties:

On August 1, 2000, the Bonneville Power Administration (BPA) announced a temporary suspension in signing Subscription contracts. Unprecedented market volatility and rising wholesale electricity prices coupled with a possible increase in BPA's firm load requirement of as much as 1,400 average megawatts threatened to significantly reduce our ability to satisfy our financial obligations in the last 3 years of the 2002-2006 rate period. The suspension in signing contracts was needed so that BPA, its customers and constituents could consider options that would provide the flexibility BPA needs to fully satisfy its financial obligations for the 5-year rate period.

First of all, I would like to thank our customers and constituents who have worked with us to develop an approach for resolving this issue. By August 24, BPA had conducted a public meeting on this issue and had received over 60 written comments. On August 3, prior to the public meeting, BPA distributed a paper describing two basic options for addressing its potential financial problems. The first option would have changed the Subscription contracts to allow BPA to revise power rates sooner than five years, if necessary. The second option would make a limited modification to BPA's proposed rates currently before the Federal Energy Regulatory Commission (FERC).

In reviewing the comments we have received, BPA has applied the following criteria in choosing the approach:

- It should be as simple as possible;
- It should allow Subscription contract signing to proceed to completion as soon as possible;
- It should not require review or revision of the overall Subscription Strategy;
- Specifically, reallocation of Subscription power among customer groups, or a change in the basic balance of interests in Subscription should not be required;
- It should require limited revisions, if any, to the 2002 rate proposal currently before FERC, and limited revisions, if any, to the Subscription contract; and
- It must achieve the goal of leaving BPA's probability of repaying the U.S. Treasury in full and on time within an acceptable range over the 2002-2006 rate period.

After considering the comments we have received, as well as BPA's own analysis of this issue, I've decided to go with the second option. Accordingly, BPA will re-open the recently

concluded Northwest Power Act section 7(i) process. It will be limited to measures necessary to ensure that the Treasury payment goal is achieved. BPA believes it can accomplish this goal by revising the Cost Recovery Adjustment Clause (CRAC) to make it more robust and making corresponding changes in the Slice contracts. We are not looking at an increase in our basic power rates.

Over the next couple of weeks BPA will be holding discussions with rate case parties and others to attempt to reach agreement on modifications to be made to the rate proposal that BPA will announce in the middle of September. This rate proposal will be published in full detail in a late-October Federal Register Notice.

In the mean time, BPA will resume signing Subscription contracts effective September 5 and will extend the date for closing the Subscription window to October 31 to accommodate the needs of customers who require the extra time to complete the process. However, the deadline for new public agency annexed loads eligible for the lowest cost-based price for the 2002-2006 period will remain at September 30. This will help reduce the financial risk of unexpected loads being placed on BPA.

The contracts will specify that the customer will pay the rates that come out of the rate process. The contracts will also give customers the option of terminating their contract at the conclusion of the rate proceeding.

We received comments on three issues in particular, and I want to tell you where we are on those issues:

- Slice contracts: There was considerable comment about the Slice customers' payment of BPA's "augmentation" costs. We agree that the Slice customers should be part of the solution. We hope to work out specifically what will be done through further consultation with customers and other interested parties before we announce a rate proposal.
- IOU residential customers: There was concern about how IOU residential customers would be affected by any solution. We do not intend to reduce the overall 1,900 average megawatt settlement proposal for the residential exchange. Before we announce a rate proposal, we hope to work out an agreement with customers and other parties as to how the CRAC will affect the IOU residential customers.
- Early subscription signers: Many customers who earlier signed Subscription contracts within the last two months expressed their view that subjecting those contracts to any rate revision would be a breach of faith, if not a breach of the contract. We take this comment seriously and fully intend to honor those contracts. We will clarify how these contracts will be affected by the rate revision at the time we announce a rate proposal.

Here is a summary of the timeline for completing the mini 7(i) rate case process. This is our best estimate based on what we know now and is subject to change.

DATE	EVENTS/SCHEDULE
August 31	Announce decision to reopen 2002-2006 power rate case.
September 1-14	Discussions with rate case parties and other interested parties to attempt to reach agreement on the specifics of the CRAC revision
September 5	Subscription contract signing reopened.
September 15	BPA/Parties announce stipulated agreement or BPA announces own proposal.
	Ex parte begins
	Slice contract signing reopened.
October 12	Noticed meeting on draft mini 7(i) proposal.
October 27	BPA publishes supplemental proposal and publishes Federal Register Notice.
October 31	Subscription window closes.
March	Final Record Of Decision (ROD) if stipulated agreement.
April	Final ROD if contested proposal.
	Final rates proposal submitted to FERC about 1 month after completion of final ROD.

As you can see, there is a lot of work to be done. As we proceed, I want to assure you that BPA is dedicated to keeping the commitment it made to Congress and others to maintain a high probability of paying Treasury and satisfying our fish and wildlife funding obligations. We are also committed to preserving the allocation of Subscription power among customer groups as well as the balance of interests reflected in BPA's Subscription Strategy. I am hopeful that, by continuing to work with our customers and constituents, we will be able to craft a rate case revision that meets these goals.

Sincerely,

(Sgd.) J.A. Johansen

Judith A. Johansen
Administrator and Chief Executive Officer



Department of Energy

Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208-3621

EXECUTIVE OFFICE

August 1, 2000

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To Customers and Interested Parties:

The Bonneville Power Administration (BPA) is currently in the midst of signing power sales contracts for the Fiscal Year 2002-2006 period. When signed, these contracts would lock in rates for a 5-year period, leaving BPA limited flexibility to address major change. Creating 5-year rate stability has been a fundamental premise of the Subscription Strategy. However, since the end of BPA's 2002-2006 power rate case, the wholesale electricity market has shown unprecedented volatility and a dramatic upward trend in prices. I want to be open with you about the dilemma this presents for BPA and the potential implications for the latter half of the 2002-2006 rate period.

We have all witnessed the recent price surge. While we cannot define with certainty all the factors that have caused recent short-term price volatility, increases in natural gas prices and west coast supply deficits are driving up BPA's long-term costs of power. Though power purchases will only make up roughly 20 percent of BPA's total power supply in the next rate period, this increase could have a significant impact on BPA's ability to fulfill its financial obligations. And as market prices have increased, there has been a corresponding increase in customers' desire to place load on BPA. It now appears that the firm load placed on BPA may be 1,400 average megawatts higher than anticipated in the rate case, which would require additional major purchases in the market by BPA.

Given the best information we had during our recently concluded rate case, we met our goal of an 80 to 88 percent Treasury Payment Probability (TPP) for the 5-year period. If these higher loads and prices occur, we estimate our chances of paying Treasury every year in full for the period 2002-2006 could drop to less than 65 percent. The difficulties in ensuring Treasury payment, if they were to materialize, would most likely be in the last 3 years of the 5-year rate period. As the financial stewards of the Federal Columbia River Power System, we do not believe a 5-year TPP this low is acceptable.

We don't know for certain how much additional load we will get or how long the high market prices for 2002-2006 deliveries will be with us. Our financial situation is presently very sound, though the potential for problems has clearly grown. In light of these extraordinary circumstances, it is only prudent to move forward with options that would provide BPA the flexibility to respond to this situation.

It is important to note that the issues raised here are related to changes in load and market rates. The fish and wildlife costs that will fall to BPA as a result of the recently released draft Biological

Opinion were anticipated and are covered in the proposed rates. Recent fish recovery decisions are not driving this situation.

We made a commitment to Congress and others to maintain a high probability of paying Treasury. We expect to maintain our proposed rates for at least the first 2 years of the rate period. However, we need to explore options that allow sufficient flexibility to deal with problems that may arise in the latter part of the rate period. One option is to revise our rate proposal for the 2002-2006 period before those rates are reviewed by the Federal Energy Regulatory Commission (FERC). Revisions could include altering the existing, limited Cost Recovery Adjustment Clause (CRAC) to create more flexibility, and implement similar changes to the Slice product offering. Another option is to change the Subscription contracts to allow a public process to revise rates within the rate period, if needed. Since the financial challenges are more likely to appear later in the rate period, we lean towards limiting any change in rates to the last 3 years of the rate period, with no change to the current proposal for the first 2 years. Further analysis will help us to decide whether this approach is viable.

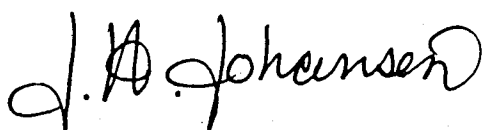
Given the significance and seriousness of the potential decisions ahead, we have decided to continue negotiating contract terms with our customers, but temporarily suspend signing additional Subscription contracts for the time being. There may be a need for a corresponding delay in the deadline for signing Subscription contracts. We are committed to concluding Subscription as quickly as possible and providing our customers a competitive, cost-based product.

We will be discussing this with the region to ensure as much input as possible. We intend to conduct the following process:

August 1-August 22:	Collect interested parties' thoughts on appropriate responses.
August 3	Distribute a 2 to 3 page description of alternative BPA responses.
August 21	Public meeting on alternative responses – Portland Airport Holiday Inn, 10 a.m.-2:30 p.m.
August 22	Comments due
August 25	Announce what response BPA intends to implement and how the details will be defined.

As you can tell, this has not been an easy decision to make. But assuring the financial health of the System is necessary if we hope to retain its benefits for the Northwest. We ask for your understanding as we seek to deal with these difficult issues.

Sincerely,



Judith A. Johansen
Administrator and CEO